

## **GASB Statement No. 51 – Frequently Asked Questions**

### **General Requirements for All Intangible Assets:**

Q1. How does **GASB Statement No. 51** define intangible assets?

A1. **GASB No. 51** defines intangible assets as having *all* of the following characteristics:

- a. **Lack of physical substance.** Intangible assets are assets that do not have a physical existence. (Note: An intangible asset may be contained within an asset having a physical presence or be associated with other assets having a physical presence. Examples are software contained on a compact disc or right-of-way easements.)
- b. **Non-financial in nature.** Intangible assets are non-financial in nature and are not in a monetary form similar to cash or investment securities. Further, they are neither claims or a right to assets in monetary form similar to receivables nor prepayments for goods or services.
- c. **Useful lives or benefit periods exceeding one or more years.** Intangible assets having a useful life of one year or less are not subject to the provisions of **GASB No. 51**.

Q2. What asset types does **GASB No. 51** consider as intangible assets?

A2. Intangible assets consist of **three broadly-defined types** as described below:

1. **Intangible assets generally defined as software.** Software intangible assets include computer programming or coding language that provide the necessary instructions for the computer hardware to perform a desired task or series of tasks. Software intangible assets include commercially available off-the-shelf (COTS) software, software specifically developed by an outside contractor, and software developed internally by agency personnel, or acquired through any combination of the above.
2. **Intangible assets associated with real property.** These include land-use rights such as easements, right-of-ways, water rights, timber rights and mineral rights that provide specific benefits related to the real property upon which the right applies. Land use rights may be defined generally as rights that provide the right to control the use of the real property (right-of-way) or provide other benefits derived from the real property (mineral rights, etc).
3. **Other Intangible assets that are not software or land-use rights.** Other types of intangible assets are those intangible assets that are not specifically identified as being of the types shown in #1 or #2 above. These other types of intangible assets are generally created through the development of intellectual property and include patents, copyrights, and trademarks. These types of intangible assets are most frequently found at agencies where there is ongoing research and development being performed, such as institutions of higher education.

Q3. What are the exceptions to **GASB No. 51**?

A3. The provisions of **GASB No. 51** apply to all intangible assets meeting the above **except** for the following:

1. Intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit. In these instances, authoritative guidance related to investments should be reviewed.
2. Intangible assets resulting from capital lease transactions that are reported as leases.
3. Goodwill created through the combination of a government and another entity. Contact DOA to discuss goodwill to determine the appropriate treatment.

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- Q4. Are intangible assets that are no longer in use as of July 1, 2009 required to be reported?
- A4. **No** – only intangible assets that are still in use are required to be reported.
- Q5. What are the reporting thresholds for intangible assets?
- A5. Only intangible assets meeting the reporting thresholds (see table below) are required to be reported. See the updated CAPP Topic No. 30325 for additional guidance.

<b><u>Fiscal Year that Asset Was Place In Service</u></b>	<b><u>Acquisition Cost</u></b>
<b>1981---2008 (for retroactive reporting)</b>	<b>\$1,000,000</b>
<b>2009---Forward</b>	<b>\$100,000</b>

Please note that individual agencies that prepare financial statements are responsible for identifying an appropriate scope for those individual statements, and it is likely the statewide scopes are inappropriate for individual agency reporting.

- Q6. What capitalization values should be used for donated intangible assets?
- A6. Donated intangible asset(s) should be recorded at the fair market value of the intangible asset as of the donation acceptance date.
- Q7. What acquisition date should be used for recording donated intangible assets?
- A7. The acquisition date should be the date that the intangible asset is actually transferred to the agency. Generally speaking, this would be the date that the intangible assets was received and accepted by the agency. For land-use intangible assets, this is the date that the title to the intangible asset property is transferred to the agency.
- Q8. Should an intangible asset acquired or created by a government with the intent to resell be accounted for under the provisions of **GASB No. 51**?
- A8. **No** – Generally, an intangible asset acquired (either purchased or internally developed) with the intent to resell is used to generate income or profit. As stated in paragraph 3a of **GASB No. 51** and question 3 above, intangible assets of this type are excluded.
- Q9. In order to capitalize outlays associated with intangible assets, one of the requirements pertains to the agency's intent and ability to complete the project. What are examples of evidence to help substantiate this intent and ability?
- A9. Evidence that indicates that recognition criteria for internally generated intangible assets outlined in **GASB No. 51**, paragraph 8c, have been met may include the following:
- Budgetary commitments for funding the project
  - Reference to the project in strategic planning documents
  - Commitments with external parties to assist in the creation of the intangible asset
  - Internal assignments or the hiring of specific personnel to work on the project
  - Efforts made to secure the government's legal rights to the results of the project (for example, the securing of trademark rights to prevent an emblem from being used by others inappropriately)

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- Q10. Are governments required to accumulate outlays associated with a project to develop an internally generated intangible asset that are incurred prior to meeting the recognition criteria in **GASB No. 51**, paragraph 8, and then to capitalize those outlays as part of the cost of the intangible asset after its criteria is met?
- A10. **No** – Paragraph 8 states that only outlays incurred subsequent to meeting the recognition criteria for internally generated intangible assets should be capitalized. Outlays incurred prior to meeting the criteria should be expensed as incurred and should not be capitalized.
- Q11. When should an intangible asset be considered to have an indefinite useful life?
- A11. As stated in **GASB No. 51**, paragraph 17, an intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. One example of an intangible asset with an indefinite useful life is a permanent right-of-way easement. Agencies should take care not to identify an intangible asset as having an indefinite useful life solely because the agency cannot readily identify the precise period the asset will provide service. For instance, it might be difficult to identify a precise useful life for computer software. However, it is known that software will eventually become obsolete and require future replacement. Therefore, the software used in the example has a finite useful life. An intangible capital asset with a finite life should be depreciated or amortized over an estimate of its useful life.
- Q12. Does an intangible asset that no longer has an indefinite useful life require amortization/depreciation?
- A12. **Yes** – According to **GASB No. 51**, paragraph 17, if changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should begin to be amortized. Prior to amortizing/depreciating the asset, however, the asset should first be tested for impairment in accordance with the guidance in **GASB No. 42** since a change in the expected duration of use of the intangible asset has occurred. Any carrying value of the intangible asset remaining after recognizing any impairment loss should be amortized/depreciated in subsequent reporting periods over the remaining estimated useful life of the asset.
- Q13. What are examples of circumstances that may indicate that an intangible asset may be impaired?
- A13. Similar to other capital assets, the provisions of **GASB No. 42** should be applied to determine whether an intangible asset is impaired and, if so, the measurement of any impairment loss to be recorded. The provisions of **GASB No. 42** also should be followed for other financial reporting aspects related to impairment, including presentation and disclosure and accounting for insurance recoveries. Additional information regarding **GASB No. 42** is available in the **Authoritative Literature / Guidance for Preparation of GAAP Basis Fund Financial Statement Templates** on DOA's website at [www.doa.virginia.gov](http://www.doa.virginia.gov)

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### **Software Intangible Assets:**

Q14. Does internally developed software that was acquired on or prior to June 30, 2009 need to be retroactively reported?

A14. **No** – it is the Commonwealth's policy not to retroactively report internally developed software. **GASB No. 51** provides an exception making it optional to retroactively report internally developed software. Contact DOA if there is a business need by the agency to retroactively report internally developed software.

Q15. Should commercially available off the shelf software (COTS) that an agency purchased or licensed with minimal or no required modifications be capitalized? (DOA defines minimal modification as no more than 10% of the purchase price.)

A15. **Yes** – whether purchased outright or through a licensing agreement, the software is considered to be an intangible asset, and therefore, is subject to capitalization per CAPP Topic No. 30305 and updated CAPP Topic No. 30325. In addition, **GASB No. 51** requires that COTS acquired on or prior to June 30, 2009, be retroactively reported if the software had not been previously reported.

Q16. Are agency websites considered intangible assets for purposes of **GASB No. 51**?

A16. **Yes** – websites are considered software, and thus, intangible assets. Accordingly, websites must be reported in accordance with **GASB No. 51**. Only costs incurred during the **Application Development Stage** of the software development project can be capitalized. See the updated CAPP Topic No. 30325 for guidance on what costs are appropriate for the **Application Development Stage**.

Q17. An agency is developing a new computer system in multiple modules or phases. Each module is developed on an individual timetable, and each module may become operational at different times. How should a software project like this be reported?

A17. The agency should follow the guidance for internally generated computer software intangible assets and record a construction in progress (CIP) during the **Application Development Stage**. **Upon completion of each individual module, the agency should** reverse the CIP and record a separate intangible asset. Only costs incurred during the **Application Development Stage** of the project can be capitalized. See the updated CAPP Topic No. 30325 for guidance on what costs are appropriate for the **Application Development Stage**.

Q18. Preliminary Project Stage development tasks for developing internally generated computer software are not capitalizable. Are there examples of tasks that are commonly performed during the Preliminary Project Stage?

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A18. The activities undertaken in the Preliminary Project Stage generally look toward identifying the final approach for the computer software development project. Common examples of these activities are:

- Making strategic decisions to allocate resources between alternative projects at a given point in time
- Determining the performance requirements for the computer software project--for example, through a user needs analysis
- Determining the systems requirements for the computer software project and that the technology needed to achieve performance requirements exists
- Exploring alternative means of achieving the specified performance requirements--for example, evaluating internal development of the computer software against procurement and modification of commercially available software
- Selecting a vendor if commercially available software is to be acquired
- Selecting a consultant to assist in the development or installation of the computer software.

Q19. How should outlays for data conversion and user training for the acquisition of computer software that is not considered internally generated be reported?

A19. Only those outlays that are necessary to make the software operational are considered ancillary and should be capitalized. Any other costs, including training, are not ancillary and should be expensed as incurred.

Q20. When evaluating the capitalizable costs for developing internally generated computer software, data conversion costs may be included only to the extent they are determined necessary to make the computer software operational. What types of tasks would be considered data conversion activities? When may the data conversion activities be considered necessary to make internally generated computer software operational?

A20. Data conversion activities tasks may include: the purging or cleansing of existing data, conversion of data from the legacy system to the new system, and reconciliation of the data from the legacy system and the data in the new system. One possible example of an instance when the data conversion activities may be considered necessary to make internally generated computer software operational is a human resources system for which the effective processing of payroll transactions is dependent on the transfer of information (pay rates, payroll withholding data, and employee direct deposit information) from the legacy system. In this instance, capitalization of the data conversion costs is likely appropriate.

Conversely, a database system containing informational data for vendors that is not essential to procurement activities may be less reliant on converted legacy data. Therefore, this database system may be considered operational prior to the completion of any data conversion. In this case, the data conversion activities should be considered part of the Post-Implementation/Operation Stage of development, and the associated outlays should be expensed as incurred.

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- Q21. Should the training of employees involved with developing internally generated computer software be considered an activity of the Application Development Stage of developing internally generated computer software, generally resulting in the associated outlays being capitalizable?
- A21. **No** – Although the skills obtained by the employees through the training may facilitate the development of the computer software, the training itself does not further the development of the software and does not otherwise contribute to putting the software in condition for use. Therefore, this training should not be considered an activity of the Application Development Stage, and the related outlays should be expensed as incurred.
- Q22. Should outlays from business process reengineering activities that occur as a result of the development of internally generated computer software be included when determining the reporting of outlays associated with the development of the software?
- A22. The answer **depends** as follows:  
**No** – While business process activities may occur as a result of the development of computer software or may be part of a broad project that also involves the development of computer software, these activities should not be considered part of the process to develop the computer software. Generally, outlays associated with business process reengineering activities should be expensed as incurred.  
**Yes** - If a new resource was acquired as part of the business process reengineering activities (for example, a piece of equipment to carry out a new procedure), the outlays associated with the acquisition of that resource should be capitalized as an asset if it meets the capitalization criteria.
- Q23. How should outlays associated with the internal modification of an existing computer software system that makes it able to interface with a new computer software system be reported?
- A23. The answer **depends** as follows:  
**Capitalize** – if the modifications result in an increase in the functionality, efficiency, or useful life of the software.  
**Expense** – if the modifications should be considered maintenance.
- Q24. Under which asset category should software intangible assets be recorded in the Fixed Asset Accounting and Control System (FAACS)?
- A24. Software intangible assets should be recorded using the “infrastructure” asset category and the corresponding new nomenclature codes in FAACS. **Note:** Software was previously required to be reported in the “equipment” category prior to FY 2010.
- Q25. An agency purchases commercially available computer software through a five-year license agreement. Under the agreement terms, the agency is required to make annual payments to the software vendor for the right to use the software over the life of the agreement. Should the software acquired under this licensing agreement be capitalized?

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- A25. **Yes** – under these circumstances, the licensing agreement to use the software for 5 years qualifies as an intangible asset and should be recorded as a capital asset and depreciated (amortized) over the useful life of the asset (in this instance, 5 years). In addition, a long-term liability representing the obligation to make annual payments over the life of the 5 year licensing agreement should be recognized and reported. The liability would be reduced each year by the amount of the payment(s) that were made during the year. For illustrative purposes, assume the cost is \$100,000 annually. The software should be capitalized for the total cost of \$500,000. For financial statement reporting, a \$500,000 long-term liability is also recorded. As the annual payments are made, both the asset is amortized and the liability is reduced by \$100,000.
- Q26. When a multi-year licensing agreement includes both the license to use the software and software maintenance fees included in the total payment, what amounts should be capitalized?
- A26. Only payments that are associated with the license to use the software can be capitalized. The portion of the total payment that covers any required maintenance or minor upgrades issued by the vendor throughout the year such as “quick fixes” to repair newly identified software “bugs” should not be capitalized. These charges are normal routine software maintenance activities and should not be capitalized but should be expensed as incurred.
- Q27. Should a software license that is only for one year be capitalized?
- A27. **No** – only multi-year licenses should be capitalized. One year licensing agreements should be expensed as incurred.
- Q28. Does a software intangible asset that was previously entered into FAACS as “equipment” need to be re-entered into FAACS as “infrastructure.”
- A28. **No** – Any existing software intangible asset entered into FAACS using the “equipment” asset category does not need to be re-entered as an “infrastructure” asset. DOA will determine on a case by case basis if any financial statement reclassifications are required. Supplemental agencies that do use FAACS to record assets will be required to identify the intangible assets and corresponding depreciation recorded by asset category type to DOA in the agency’s supplemental information.
- Q29. The agency or institution receives American Recovery and Reinvestment Act (ARRA) funds. In order to meet the reporting requirements, the agency develops specialized software. Is there a specific useful life that must be used.
- A29. **Yes** – Due to the limited time period for ARRA funding, the useful life cannot exceed 3 years. The agency or institution will need to evaluate the specific intangible asset and funding timeline to determine the actual life to be used.

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### **Intangible Assets Associated with Land-Use Rights including Right-of-Ways, Easements (including Conservation Easements), Timber Rights, Water Rights, and Mineral Rights:**

Q30. Do land-use intangible assets that were acquired on or prior to June 30, 2009 need to be retroactively reported?

A30. The answer **depends** as follows:

**No** – if the land-use intangible asset represents an intangible asset with an indefinite useful life that **has not** been previously depreciated. It is the Commonwealth's policy **not** to retroactively report intangible assets with indefinite useful lives. **GASB No. 51** provides an exception making it optional to retroactively report intangible assets considered to have indefinite useful lives where depreciation has not previously been taken. Contact DOA if there is a business need by the agency to retroactively report intangible assets with indefinite useful lives.

**Yes** – if the land-use intangible asset represents an intangible asset with an indefinite useful life **but** depreciation has been previously taken. The amount of the depreciation previously taken **requires** restatement to remove the depreciation amounts. Contact DOA if the agency has an intangible asset that requires restatement.

**Yes** – if the land-use intangible asset represents an intangible asset that does not have an indefinite useful life, has not previously been reported, and was not internally generated.

Q31. Does land-use intangible assets associated with a parcel of land require separate reporting when the land parcel has been previously reported as a land capital asset?

A31. **No** – intangible assets associated with the underlying land are considered to be bundled rights that do not require separate reporting from the land asset. Only when the intangible asset (right-of-way, easement, timber right, etc.) is not part of the land asset does the intangible asset need to be reported separately. In most instances, all associated rights are included in the title to the land asset.

Q32. Under which asset category should land-use intangible assets be reported in FAACS?

A32. The answer is that **it depends**. Generally speaking, all intangible assets should be reported in the infrastructure category. However, due to limitations with the FAACS system, capital assets that do not require depreciation cannot be entered into FAACS using the infrastructure category. All FAACS users should contact DOA before entering intangible assets with indefinite useful lives that do not require depreciation to be taken. In addition, all supplemental agencies that do not use FAACS, should also contact DOA before recording intangible assets into their own capital asset systems as similar system limitations may also exist. Supplemental agencies are also required to separately identify any intangible assets included in the asset and depreciation balances by category type to DOA in the agency's annual supplemental directive submission.



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### **Intangible Assets Associated with Other Types of Intangible Assets including Copyrights, Patents, Trademarks or any Other Non-Software, Non-Land-Use Intangible Assets:**

Q33. Do other types of intangible assets that were acquired on or prior to June 30, 2009 need to be retroactively reported?

A33. The answer **depends** as follows:

**No** – if the other type of intangible asset represents an intangible asset with an indefinite useful life that **has not** been previously depreciated. It is the Commonwealth's policy **not** to retroactively report intangible assets with indefinite useful lives. **GASB No. 51** provides an exception making it optional to retroactively report intangible assets considered to have indefinite useful lives where depreciation has not been previously taken. Contact DOA if there is a business need by the agency to retroactively report an "other intangible asset with an indefinite useful life."

**Yes** – if the other type of intangible asset represents an intangible asset with an indefinite useful life **but** depreciation (or amortization) has previously been taken. The amount of the depreciation (or amortization) previously taken **requires** restatement to remove the depreciation (or amortization) amounts. Contact DOA if the agency has an "other" intangible asset that requires restatement.

**Yes** – if the other type of intangible asset represents an intangible asset that does not have an indefinite useful life, has not previously been reported, and was not internally generated.

Q34. Under which asset category should other types of intangible assets be reported in FAACS?

A34. The answer is that **it depends**. Generally speaking, all intangible assets should be reported in the infrastructure category. However, due to system limitations with FAACS, capital assets that do not require depreciation **cannot** be entered into FAACS using the infrastructure category. All FAACS users should contact DOA before entering an intangible asset that does not require depreciation to be taken. In addition, all supplemental agencies that do not use FAACS, should also contact DOA before recording intangible assets into their own capital asset systems as similar system limitations may also exist. Supplemental agencies are also required to separately identify any intangible assets included in the asset and depreciation balances by category type to DOA in the agency's annual supplemental directive submission.

Q35. If an agency or institution acquires a copyright through a contribution and the copyright is used primarily to generate royalty income, is the copyright an intangible asset subject to the provisions of **GASB No. 51**?

A35. **No** – **GASB No. 51**, paragraph 3a, **excludes** intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit.

Q36. An agency or institution develops a trademark or other intangible asset that will be used both in operations and to obtain a profit. For example, the trademark will be used as the entity's emblem and will be used to generate merchandising income through licensing agreements. Is the trademark or other intangible asset subject to the provisions of **GASB No. 51**?

A36. The answer **depends** as follows:

**Yes** – if the primary purpose is to use the intangible asset in operations.

**No** – if the primary purpose is to generate income.

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Q37. If an agency or institution incurs legal expenses associated with an intangible asset, such as a trademark or a patent, should these outlays be capitalized as part of the intangible asset?

A37. The answer **depends** as follows:

**Yes** – Outlays incurred to initially register a trademark or other similar intangible asset generally should be capitalized.

**No** – Outlays incurred to successfully defend the legal rights embodied within an intangible asset only allows the continued usage during the original useful life. Such outlays should be expenses as incurred.